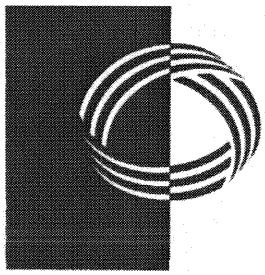
Reports of Independent Certified Public Accountants in Accordance with *Government Auditing Standards* and OMB Circular A-133



GEORGIA DEPARTMENT OF COMMUNITY HEALTH

June 30, 2005

BKR Metcalf Davis

A JOINT VENTURE OF
CERTIFIED PUBLIC ACCOUNTING FIRMS

Mauldin & Jenkins

REPORTS OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* AND OMB CIRCULAR A-133

GEORGIA DEPARTMENT OF COMMUNITY HEALTH

June 30, 2005

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

BKR Metcalf Davis

A Joint Venture of
Certified Public Accounting Firms

Mauldin & Jenkins

BKR Metcalf Davis
Tower Place, Suite 2600
3340 Peachtree Road, NE
Atlanta, Georgia 30326

404.264.1700 (T)
404.264.9968 (F)

www.bkr-metcalf.com

Mauldin & Jenkins
439 Mulberry Street
Macon, Georgia 31201

912.464.8000 (T)
912.464.8051 (F)

www.mjcpa.com

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Honorable Tim Burgess, Commissioner
State of Georgia's Department of Community Health

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the **State of Georgia's Department of Community Health** (hereinafter referred to as the "**Department of Community Health**") as of and for the year ended June 30, 2005, which collectively comprise the **Department of Community Health's** basic financial statements and have issued our report thereon dated November 8, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Department of Community Health's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our

judgment, could adversely affect the **Department of Community Health's** ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and responses as items 05-01, 05-02 and 05-03.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 05-01, 05-02 and 05-03 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Department of Community Health's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We noted certain matters that we reported to management of the **Department of Community Health** in a separate letter dated November 8, 2005.

This report is intended solely for the information and use of management of the **Department of Community Health**, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKR Metcalf Davis

Mauldin & Jenkins, LLC

Atlanta, Georgia
November 8, 2005

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

BKR Metcalf Davis

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Certified Public Accounting Firms

Mauldin & Jenkins

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3340 Peachtree Road, NE
Atlanta, Georgia 30326

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404.264.9968 (F)

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912.464.8051 (F)

www.mjcpa.com

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

The Honorable Tim Burgess, Commissioner
State of Georgia's Department of Community Health

Compliance

We have audited the compliance of the **State of Georgia's Department of Community Health** (hereinafter referred to as the "**Department of Community Health**"), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The **Department of Community Health's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the **Department of Community Health's** management. Our responsibility is to express an opinion on the **Department of Community Health's** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements

referred to above that could have a direct and material effect on a major program occurred. An audit includes examining, on a test basis, evidence about the **Department of Community Health's** compliance with those requirements and performing such other procedures that we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the **Department of Community Health's** compliance with those requirements.

In our opinion, the **Department of Community Health** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the **Department of Community Health** is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the **Department of Community Health's** internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the **Department of Community Health's** ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 05-01, 05-02 and 05-03.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused

by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 05-01, 05-02 and 05-03 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the **Department of Community Health**, as of and for the year ended June 30, 2005, and have issued our report thereon dated November 8, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the **Department of Community Health's** basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management of the **Department of Community Health**, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKR Metcalf Davis

Mauldin & Jenkins, LLC

Atlanta, Georgia
November 8, 2005

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECTION I
SUMMARY OF AUDITORS' RESULTS

Section I
Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unqualified	
Internal control over financial reporting:		
Material weaknesses identified?	X yes	____ no
Reportable conditions identified not considered to be material weaknesses?	____ yes	X none reported
Noncompliance material to financial statements noted?	____ yes	X no

Federal Awards

Internal Control over major programs:		
Material weaknesses identified?	X yes	____ no
Reportable conditions identified not considered to be material weaknesses?	____ yes	X none reported
Type of auditor's report issued on compliance for major programs	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)?	X yes	____ no

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
93.767	State Children's Healthcare Insurance Program (SCHIP)
93.777 and 93.778	Medicaid Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 14,280,483.80	
Auditee qualified as low-risk auditee?	____ Yes	X no

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES

Section II
Financial Statement Findings and Responses

05-01 Conversion from Electronic Data System (EDS) Medicaid Management Information System (MMIS) to Affiliated Computer Services, Inc. (ACS) MultiHealthNetwork (MHN) System

Criteria: The State of Georgia administers the Medicaid health benefit program for its citizens subject to federal laws and regulations. The State of Georgia has charged the **Department of Community Health** with the responsibility for this program and provides the **Department of Community Health** with the authority to use Medicaid funds for Medicaid benefit payments (as specified in the State of Georgia plan, federal regulations, or an approved waiver), expenditures for administration and training, expenditures for the State Survey and Certification Program, and expenditures for State Medicaid Fraud Control Units. The State of Georgia plan may also provide for case management services, managed care waivers, payment of certain health insurance premiums for Medicare patients, payments to Disproportionate Share Hospitals, and home and community based services which may permit an individual from avoiding institutionalization. The **Department of Community Health** is also provided with the responsibility for the State Children's Healthcare Insurance Program (SCHIP), which uses federal and state funds for assisting uninsured, low income children.

Condition: This is a repeat finding (04-01 and 03-01) from the years ended June 30, 2004 and 2003, respectively, and includes issues discussed previously in finding 04-07 (Claims Processing, Incurred-But-Not-Reported (IBNR) Data Maintenance) related specifically to deficiencies in claims processing. On April 1, 2003 the **Department of Community Health** converted their MMIS of EDS to the MHN system of ACS. The MHN system is an automated information system through which almost all Medicaid and SCHIP claims are processed. These claims are for payments to hospitals and other healthcare providers for the healthcare services to eligible enrollees in the Medicaid and SCHIP programs. As a result of the conversion, providers were not being reimbursed in a timely manner; therefore, the **Department of Community Health** began to pay actual claims, supplemented by cash payments based on historical averages. During the conversion period the State also changed to nationwide standardized diagnosis codes, but some of the providers had not made that change, resulting in discrepancies in claims paid. The conversion to the new MHN system also resulted in reimbursement to providers that did not correspond with the provider's billings. The conversion led to mass adjustments on millions of claims in an attempt to correct the claims processed in the early stages of implementation. The conversion led to the need to implement additional mass adjustments during fiscal year 2004 with additional adjustments recorded in fiscal years 2005 and 2006, respectively. The conversion also caused the **Department of Community Health** to

continue supplementing actual claim payments through August 2004 with cash payments based on historical averages.

Context: The **Department of Community Health** was able to steadily reduce and eventually cease the systematic cash payments as of the end of August 2004. In an effort to determine amounts reported in the fiscal year 2005 and 2004 financial statements, the **Department of Community Health** conducted a comprehensive claim payment analysis to adjust actual payment information for estimated amounts of claim overpayments and underpayments.

Effect: In order to produce fairly presented financial statements of the **Department of Community Health** as of June 30, 2005, adjustments were recorded to the Governmental Fund – General Fund's assets and liabilities totals to reflect estimated overpayments and underpayments, respectively. The effect of the adjustments was to report estimated additional accounts receivable – other of $19,557,500 and estimated additional accounts payable and other accruals of $5,154,500. The **Department of Community Health** devoted significant time and effort into managing system corrections, managing adjustments, and monitoring and collecting receivables resulting from the supplemental cash payments.

Cause: The failure to apply the necessary internal controls over the system conversion resulted in the need for the **Department of Community Health** to implement certain measures for reliable fiscal year 2005 financial reporting. The failure to apply the necessary internal controls over the system conversion also resulted in the **Department of Community Health** addressing increased complexity issues in the fiscal year 2005 management of the Medicaid and SCHIP programs.

Recommendation: Management should continue to improve procedures to ensure that the proper internal controls over system conversions are implemented and appropriately monitored to provide proper accounting and reporting of the **Department of Community Health's** financial statements and federal programs.

Auditee's Response: We concur with this finding. The **Department of Community Health** has implemented improved procedures to ensure that the internal controls over future system conversions are adequate to provide proper accounting and reporting of the **Department of Community Health's** financial statements and federal programs.

The MHN (now referred to as MMIS) continues to successfully process and pay claims to the extent that prospective payments are unnecessary.

The **Department of Community Health** continues to follow a plan that is now recouping 100 percent from providers still owing and from direct billings to providers with little or no claims activities.

The **Department of Community Health** is actively addressing system conditions under an improved system work order ticket management plan. This includes actively implementing a systematic reprocessing plan, with independent quality assurance procedures, to achieve needed corrections to past claim payments and proper payment of current and future claims.

05-02 Accounts Payable and Other Accruals

Criteria: The **Department of Community Health's** management is responsible for ensuring expenditures are recorded when incurred and measurable, and its financial statements and the related information included in the Schedule of Expenditures of Federal Awards are accurate. This includes recognizing the expenditures and liabilities for costs associated with the receipt of goods or services.

Condition: This is substantially a repeat of finding 04-04 from the year ended June 30, 2004. At June 30, 2005, the **Department of Community Health's** general ledger accounts (including accounts payable and other accruals) did not include significant obligations of the **Department of Community Health** and required the recording of significant adjustments to ultimately reflect all obligations owed by the **Department of Community Health** as of June 30, 2005.

Context: See Effect as noted below.

Effect: Subsequent to the **Department of Community Health's** preparation of the fiscal year 2005 financial statements, and through the month of October 2005, the **Department of Community Health** recorded audit adjustments to increase the total of all accounts payable and other accruals by a net amount of $18,684,604 as of June 30, 2005.

Cause: The **Department of Community Health** did not have an adequate system or refined procedures in place to support management's assertions that the accounts payable and other accruals were complete, accurate, and properly valued in a timely manner.

Recommendation: We recommend the **Department of Community Health** maintain an adequate system and refine their procedures to provide reasonable assurance the accounts payable and other accruals reported by the **Department of Community Health** represent a complete and accurate listing of obligations owed by the **Department of Community Health**. The system should include internal controls which will reduce to a relatively low level the risk

the **Department of Community Health's** obligations are materially misstated.

Auditee's Response: We concur with this finding. As a result of the same finding from the fiscal year ended June 30, 2004 *Report on Internal Control Over Financial Reporting* (completed in July 2005), the **Department of Community Health** reviewed the adequacy of the existing policies and procedures to ensure the **Department of Community Health's** liabilities are properly stated at fiscal year end. It was determined that the procedures as written were adequate, and fiscal year-end steps outlined in the procedures were followed, but due to inadequate quality control reviews, errors were made. Meetings have been held between Accounting, Budget and Contracts staff to increase understanding of the procedures to be followed and to add quality control review steps to our processes to lessen the potential for human error to go undetected.

05-03 Segregation of Duties

Criteria: The **Department of Community Health's** management is responsible for designing and maintaining internal controls, which provide proper segregation of duties. Such internal controls would limit any one individual's access to both physical assets and the related accounting records.

Condition: This is a repeat of finding 04-05 from the year ended June 30, 2004. During our fieldwork, we noted a lack of segregation of duties. Certain individuals within the **Department of Community Health** have the ability to access and perform the following functions relating to the general ledger and cash operations, which are considered incompatible:

- perform all journal entry functions including posting and un-posting,
- approve journal entries and transactions for recording in the general ledger,
- approve changes in authority of wire transfers, and
- are authorized check signers or have wire transfer authority.

Context: See Condition as noted above.

Effect: Transactions could be mishandled and not detected in a timely manner.

Cause: The **Department of Community Health's** management did not have internal controls in place and functioning to provide adequate segregation of duties.

Recommendation: Duties should be separated as much as possible, and alternative controls should be used to compensate for any lack of separation of duties.

Authorized check signers should not have access to incompatible functions within the **Department of Community Health**, such as performing and approving financial transactions.

Auditee's Response: We concur with this finding. As a result of the same finding from the fiscal years ended June 30, 2004 and 2003, other external auditors, at the **Department of Community Health's** request, reviewed the **Department of Community Health's** internal controls as they related to financial services. This review included an evaluation of the duties of all financial services staff to gain an understanding of where weaknesses existed. Duties have been re-assigned to limit each individual's access to both physical assets and the related accounting records. Security access for PeopleSoft is reviewed quarterly, beginning September 30, 2005.

SECTION III
FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

SECTION III
Federal Awards Findings and Questioned Costs

05-01 Conversion from Electronic Data System (EDS) Medicaid Management Information System (MMIS) to Affiliated Computer Services, Inc. (ACS) MultiHealthNetwork (MHN) System

Federal Program Information:	CFDA Nos. 93.767, 93.777 and 93.778 State Children's Healthcare Insurance Program (SCHIP), Medicaid Cluster (State Survey and Certification of Healthcare Providers and Medical Assistance Program) US Department of Health and Human Services Grant Award Nos. 5-0305GA5021, 5-0305GA5R21, 5-0305GA5001, 5-0305GA5028, 5-0305GA5048, 5-0405GA5028 and 5-0405GA5048 Fiscal Year 2004
Criteria:	See Financial Audit Finding 05-01.
Condition:	See Financial Audit Finding 05-01.
Questioned Cost:	Amount not determinable
Context:	See Financial Audit Finding 05-01.
Effect:	See Financial Audit Finding 05-01.
Cause:	See Financial Audit Finding 05-01.
Recommendation:	See Financial Audit Finding 05-01.
Auditee's Response:	See Financial Audit Finding 05-01.

05-02 Accounts Payable and Other Accruals

Federal Program Information:	CFDA Nos. 93.767, 93.777 and 93.778 State Children's Healthcare Insurance Program (SCHIP), Medicaid Cluster (State Survey and Certification of Healthcare Providers and Medical Assistance Program) US Department of Health and Human Services Grant Award Nos. 5-0305GA5021, 5-0305GA5R21, 5-0305GA5001, 5-0305GA5028, 5-0305GA5048, 5-0405GA5028 and 5-0405GA5048 Fiscal Year 2004
Criteria:	See Financial Audit Finding 05-02.
Condition:	See Financial Audit Finding 05-02.
Questioned Cost:	None
Context:	See Financial Audit Finding 05-02.

Effect:	See Financial Audit Finding 05-02.
Cause:	See Financial Audit Finding 05-02.
Recommendation:	See Financial Audit Finding 05-02.
Auditee's Response:	See Financial Audit Finding 05-02.

05-03 Segregation of Duties

Federal Program Information:	CFDA Nos. 93.767, 93.777 and 93.778 State Children's Healthcare Insurance Program (SCHIP), Medicaid Cluster (State Survey and Certification of Healthcare Providers and Medical Assistance Program) US Department of Health and Human Services Grant Award Nos. 5-0305GA5021, 5-0305GA5R21, 5-0305GA5001, 5-0305GA5028, 5-0305GA5048, 5-0405GA5028 and 5-0405GA5048 Fiscal Year 2004
Criteria:	See Financial Audit Finding 05-03.
Condition:	See Financial Audit Finding 05-03.
Questioned Cost:	None
Context:	See Financial Audit Finding 05-03.
Effect:	See Financial Audit Finding 05-03.
Cause:	See Financial Audit Finding 05-03.
Recommendation:	See Financial Audit Finding 05-03.
Auditee's Response:	See Financial Audit Finding 05-03.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Department of Community Health

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS — FOR THE FISCAL YEAR ENDED JUNE 30, 2005

FEDERAL AGENCY DIRECT OR PASS-THROUGH ENTITY PROGRAM NAME	CFDA NO.	EXPENSES
Health and Human Services, U. S. Department of		
Direct		
Medicaid Cluster:		
State Survey and Certification of Health Care Providers	93.777	$ 1,198,534.74
Medical Assistance Program	93.778	4,558,265,535.83
		4,559,464,070.57
HLTH CTR/Migrant Health	93.224	1,568,614.30
State and Territorial and Technical Assistance Capacity	93.006	109,915.46
Primary Care Services - Resource Coordination and Development	93.130	72,413.74
Grants for State Loan Repayment	93.165	50,000.00
State Rural Hospital Flexibility Program	93.241	427,572.97
State Children's Healthcare Insurance Program	93.767	196,526,990.50
Grants to States for Operation of Offices of Rural Health	93.913	111,138.82
Real Choice System Chg. Starter/Nurs Facility Transition Grant	93.779	(5,699.50)
Small Rural Hospital Improvements	93.301	388,307.34
Human Resources, Department of		
Refugee and Entrant Assistance - State Administered Programs	93.566	1,447,941.67
Total		$ 4,760,161,265.87

Purpose of the Schedule

Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires a Schedule of Expenditures of Federal Awards reflecting total expenditures for each federal financial assistance program as identified in the Catalog of Federal Domestic Assistance (CFDA).

Significant Accounting Policies

Reporting Entity – The accompanying Schedule of Expenditures of Federal Awards includes all federal financial assistance programs administered by the **Department of Community Health** for the fiscal year ended June 30, 2005.

Basis of Presentation – The accompanying Schedule of Expenditures of Federal Awards is presented in accordance with OMB Circular A-133.

Federal Financial Assistance – Pursuant to the Single Audit Act Amendments of 1996 and OMB Circular A-133, federal financial assistance is defined as assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance, but does not include amounts received as reimbursements for services rendered to individuals for Medicare and Medicaid.

Basis of Accounting – The Schedule of Expenditures of Federal Awards is prepared using the full accrual basis of accounting. Under this basis, expenses are recognized when incurred.

Expenses – When a state organization receives federal monies and redistributes such monies to another state organization, the federal assistance is reported in both the primary recipient's and the sub-recipient's accounts. This method of reporting expenses is utilized in the accompanying Schedule of Expenditures of Federal Awards.

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Summary Schedule of Prior Year Findings and Questioned Costs

04-01 Conversion from Electronic Data System (EDS) Medicaid Management Information System (MMIS) to Affiliated Computer Services, Inc. (ACS) MultiHealthNetwork (MHN) System

Criteria: The State of Georgia administers the Medicaid health benefit program for its citizens subject to federal laws and regulations. The State of Georgia has charged the **Department of Community Health** with the responsibility for this program and provides the **Department of Community Health** with the authority to use Medicaid funds for Medicaid benefit payments (as specified in the State of Georgia Plan, federal regulations, or an approved waiver), expenditures for administration and training, expenditures for the State Survey and Certification program, and expenditures for State Medicaid Fraud Control Units. The State of Georgia Plan may also provide for case management services, managed care waivers, payment of certain health insurance premiums for Medicare patients, payments to Disproportionate Share Hospitals, and home and community based services which may permit an individual from being institutionalized. The **Department of Community Health** is also provided with the responsibility for the State Children's Healthcare Insurance Program (SCHIP), which uses federal and state funds for assisting uninsured, low income children.

Condition: This is a repeat finding (03-01) from the year ended June 30, 2003. On April 1, 2003 the **Department of Community Health** converted their MMIS of EDS to the MHN system of ACS. The MHN system is an automated information system through which almost all Medicaid and SCHIP claims are processed. These claims are for payments to hospitals and other healthcare providers for the healthcare services to eligible enrollees in the Medicaid and SCHIP programs. As a result of the conversion, providers were not being reimbursed in a timely manner; therefore, the **Department of Community Health** began to pay actual claims, supplemented by cash payments based on historical averages. During the conversion period the State also changed to nationwide standardized diagnosis codes, but some of the providers had not made that change, resulting in discrepancies in claims paid. The conversion to the new MHN system also resulted in reimbursement to providers that did not correspond with the provider's billings. The conversion led to mass adjustments on millions of claims in an attempt to correct the claims processed in the early stages of implementation. The conversion led to the need to implement additional mass adjustments during fiscal year 2004. The conversion also caused the **Department of Community Health** to continue supplementing actual claim payments during fiscal year 2004 with cash payments based on historical averages.

Auditee Response/ Status: Unresolved: See current year finding 05-01.

Auditee Comments: For system corrections and improvements occurring after the April 2003 conversion, the **Department of Community Health** subsequently conducted the following control reviews to identify changes necessary to provide proper accounting and reporting for financial statements and federal programs:

- Decision to arrange for SAS 70 reports on "Controls Placed in Operation and Tests of Operating Effectiveness" conducted during the applicable reporting period and reflective of 15 consecutive months of operations from April 2004 through June 2005;
- Independent Accountants' Report on "Applying Agreed-Upon Procedures" to obtain objective information about controls over claims reprocessing;
- Independent Accountants' Report on "Payment Integrity Project" to obtain objective evidence indicating whether significant errors are occurring and identifying the types of such errors; and
- Participation in the U.S. Department of Health and Human Services' "Payment Error Rate Measurement" pilot program to obtain additional objective evidence of the prevalence of payment errors and source causes.

In addition, the **Department of Community Health** will utilize an independent estimate of claims processing overpayments and underpayments to ensure that fiscal year 2004 and fiscal year 2005 financial reports are fairly stated based on the **Department of Community Health's** responsibilities for paying healthcare benefit claims. The **Department of Community Health** will also implement and monitor such controls related to future system conversions.

04-02 Upper Payment Limit Calculation

Criteria: Title 42 of the Code of Federal Regulations, Sections 447.272 for inpatient services and 447.321 for outpatient services and nursing homes, states that the **Department of Community Health** is eligible to calculate Upper Payment Limit (UPL) for providers that are State government, non-state government and privately owned and operated facilities. UPL refers to a reasonable estimate of the amount that would be paid for the services furnished by the group of facilities under Medicare payment principles.

Condition: This is a repeat finding (03-02) from the year ended June 30, 2003. During the performance of our annual audit procedures, we obtained UPL calculations that were performed three times during fiscal year 2004 - one in November 2003, the second in April 2004 and the other in June 2004.

Through examination of the UPL calculations we noted that 12 provider calculations for outpatient services had been performed incorrectly throughout the year, which led to errors in UPL payments to the providers during fiscal year 2004. These errors led to overages in federal funds obtained.

Auditee Response/ Status: Resolved.

04-03 Receivables - Other

Criteria: The **Department of Community Health's** management is responsible for ensuring the accurate presentation of its financial statements and related information included in the Schedule of Expenditures of Federal Awards. Part of that responsibility is to ensure that:

- reported receivables are authentic obligations owed to the Department,
- reported receivables include all amounts owed to the Department, and
- the reported allowance for doubtful accounts is adequate but not excessive.

Condition: This is substantially a repeat finding (03-03) from the year ended June 30, 2003. At June 30, 2004, the **Department of Community Health's** general ledger accounts (including Intergovernmental – Federal and Other Receivables) did not include significant obligations owed to the **Department of Community Health** and required the recording of significant adjustments to ultimately reflect all obligations owed to the **Department of Community Health** as of June 30, 2004. Additionally, the allowance for doubtful accounts as recorded by the **Department of Community Health** at June 30, 2004 was not adequate. Subsequent to year-end, the **Department of Community Health** determined adjustments were required to properly reflect receivables and the related allowance for doubtful accounts as of June 30, 2004.

Auditee Response/ Status: Resolved.

04-04 Accounts Payable, Accrued Liabilities and Contracts Payable

Criteria: The **Department of Community Health's** management is responsible for ensuring expenditures are recorded when incurred and measurable, and its financial statements and the related information included in the Schedule of Expenditures of Federal Awards are accurate. This would include recognizing the expenditures and liabilities for costs associated with the receipt of goods or services.

Condition: This is substantially a repeat finding (03-04) from the year ended June 30, 2003. At June 30, 2004, the **Department of Community Health's** general ledger accounts (including accounts payable and other accruals) did not include significant obligations of the **Department of Community Health** and required the recording of significant adjustments to ultimately reflect all obligations owed by the **Department of Community Health** as of June 30, 2004.

Auditee Response/ Status: Unresolved: See current year finding 05-02.

Auditee Comments: The **Department of Community Health** has implemented policies and procedures to help staff identify valid financial obligations and to provide guidance on the proper recording of the related liabilities. These procedures will be used to ensure financial obligations at fiscal year-end are recorded within the proper accounting period.

04-05 Segregation of Duties

Criteria: The **Department of Community Health's** management is responsible for designing and maintaining internal controls, which provide proper segregation of duties. Such internal controls would limit any one individual's access to both physical assets and the related accounting records.

Condition: During our fieldwork, we noted a lack of segregation of duties. Certain individuals within the **Department of Community Health** have the ability to access and perform the following functions relating to general ledger and cash operations, which are considered incompatible:

- perform all journal entry functions including posting and un-posting,
- approve journal entries and transactions for recording in the general ledger,
- approve changes in authority of wire transfers, and
- are authorized check signers or have wire transfer authority.

Auditee Response/ Status: Unresolved: See current year finding 05-03.

Auditee Comments: At the **Department of Community Health's** request, an outside audit organization has agreed to review the **Department of Community Health's** internal controls as they relate to financial services. This review will include an evaluation of the duties of all financial services staff to gain an understanding of where weaknesses may exist. Upon completion of the review, duties will be reassigned to limit each individual's access to both physical assets and the related accounting records. The review and reassignment will be completed as soon as possible but no later that June 30, 2005.

04-06 Incurred-But-Not-Reported (IBNR) Data Reconciliation and Calculation

Criteria: The **Department of Community Health's** management is responsible for ensuring expenditures are recorded when incurred and measurable. As part of that responsibility, **Department of Community Health's** management is required to prepare and maintain a database of paid claims (commonly referred to as data triangles) for purposes of making actuarial computations of the liability for incurred-but-not-reported claims (also known as IBNR claims). The database should be reconcilable to activity in the **Department of Community Health's** general ledger on a modified cash basis for the respective periods in which an IBNR calculation is being performed. Additionally, incurred date verification should be performed by comparisons to prior run triangle databases held by management, which is important for an IBNR calculation by actuaries.

Condition: **Department of Community Health's** management provided lag triangles to its actuaries and auditors; however, the controls applied were not adequate to ensure that the data was accurate for calculation of the June 30, 2004 IBNR liability.

Auditee Response/ Status: Resolved.

04-07 Claims Processing, Incurred-But-Not-Reported (IBNR) Data Maintenance

Criteria: The **Department of Community Health's** management is responsible for ensuring expenditures are processed and recorded when incurred and measurable. As part of that responsibility, **Department of Community Health's** management is required to prepare and maintain a database of paid claims or data triangles for purposes of making actuarial computations of the liability for incurred-but-not-reported claims (also known as IBNR claims). This database stems from the Affiliated Computer Services, Inc

(hereinafter referred to as ACS) processing, maintaining and paying the claims for the **Department of Community Health**. The **Department of Community Health** should be verifying the claims overall calculations from ACS for the significant codes and verifying proper claim rate calculations for the participants in the **Department of Community Health** Medicaid programs.

Condition: The **Department of Community Health** is currently paying claims with claim rates in the inpatient program utilizing rates from fiscal year June 30, 2001, and not utilizing current rates. This causes underpayment of claims and understatement of financial statement IBNR calculations and fiscal year State budgeting by management and the actuaries. Subsequent to June 30, 2004, the **Department of Community Health** received an external audit (by an external audit organization) of claims paid and processed during the fiscal year June 30, 2004 period. No ACS system correction tickets existed prior to this finding. Additionally, the same instance of an incorrect rate year used to pay a claim was found in the Therapeutic Residential Intervention Services.

Auditee Response/ Status: Partially resolved; see current year finding 05-01.

04-08 Administration of State Health Benefit Plan

Criteria: The Official Code of Georgia Annotated requires separate health insurance plans for State employees, public school teachers, and public school employees. The Georgia code sections for State employees, public school teachers, and public school employees are 45-18-12, 20-2-891, and 20-2-918, respectively. State law also requires that each of the plans have its own trust fund and that any amounts remaining in these funds after expenses have been paid are retained in the individual funds as a special reserve for adverse fluctuation.

Condition: The **Department of Community Health** operates the State Health Benefit Plan as a single plan. Because the plans are co-mingled, the **Department of Community Health** is unable to determine the amounts in trust for the separate insurance plans of State employees, public school teachers, and public school employees.

Auditee Response/ Status: Resolved.